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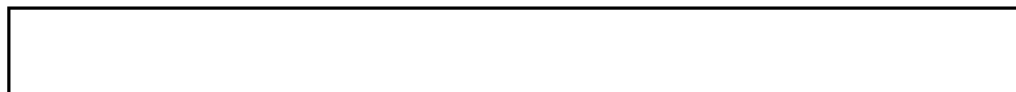
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LEBANON

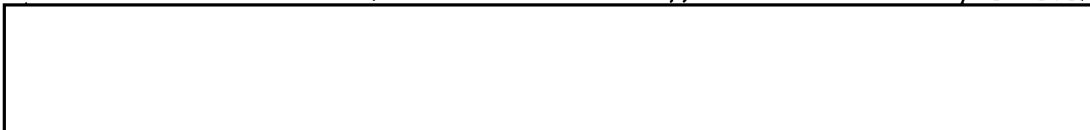
Mortar and rocket fire continued in Beirut yesterday, following the third attempt since Saturday to arrange a cease-fire. An effort by Prime Minister Karami to secure the evacuation of all armed men and the removal of the barricades from the city came to naught. The US embassy in Beirut believes time is running out.

Both the Phalangists and the leftist parties have expressed willingness to abide by the cease-fire but have voiced reservations. Both sides indicated they would not remove street barricades and roadblocks until they were convinced the cease-fire was effective.

Karami announced the formation of a 20-member "national reconciliation committee" equally divided between Muslims and Christians. The committee is to meet today to discuss "cooperation among all segments." Its membership and the absence of a specific agenda do not augur well for this latest effort to bridge the divisions between the Muslim and Christian communities.

Syrian Chief of Staff Shihabi, who accompanied Foreign Minister Khaddam to Beirut, returned to Damascus on Tuesday, and Khaddam told reporters he is leaving for home today. Failure of the Syrian mediation effort would increase the chance of a full-scale civil war that would involve the Lebanese army and all Palestinian forces.

The embassy also reports that tensions in Zahlah, the scene of fighting between Muslims and Christians in late August, and in other areas in the Bekaa Valley are rising. Clashes also have been reported in the southern outskirts of Beirut between Christians and members of the Druze sect. Until now, there has been little involvement by the Druze in the conflict. Sustained fighting between the Christians and the Druze, in the opinion of the embassy, could be extremely serious.



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USSR - MIDDLE EAST

The Soviets continue to mute public criticism of the recent Sinai II agreement, but they are playing up the US-Israeli understandings that accompanied the accord.

Press comment has focused on the weapons that may be supplied to Israel as a result of the agreement. *Izvestia*, for example, carried an article on September 17 emphasizing the range of the Pershing and the threat it poses to Arab capitals. The article asserted that there is nothing to prevent Israel from using the missiles "with nuclear warheads of its own."

These statements appear to be part of Moscow's continuing effort to drive a wedge between Egypt and the other Arab nations, all of which allegedly will pay a price in the form of a new missile "threat" for Cairo's gain in Sinai II. For example, *Pravda* on Sunday seconded those Arabs who allegedly see in the secret understandings a serious danger to peace efforts in the Middle East, saying that Israel regards partial steps as a way to avoid a resolution of the Middle East problem.

Foreign Minister Gromyko said nothing about the US-Israeli understandings when he appeared before the UN General Assembly on Tuesday. Gromyko was obliquely critical of Sinai II, however, and he said no one (meaning Secretary Kissinger and President Sadat) could undermine Moscow's deep friendship with the Arab countries. Gromyko did not comment on Secretary Kissinger's proposal for an informal multilateral meeting on the Middle East. Instead, he called for a resumption of the Geneva conference, with the participation of all interested parties, as the most appropriate mechanism for resolving the Middle East problem. This is the first time since Sinai II was initialed that the Soviets have suggested a return to Geneva.

Soviet media thus far have carried only one highly selective account of Secretary Kissinger's remarks in New York on the Middle East. That version ignored the proposal for a multilateral meeting and did not acknowledge the Secretary's statement that discussions with the Soviets had already begun on possible diplomatic approaches for a just and durable peace.

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PORTUGAL

The Portuguese Communists have absorbed more setbacks:

--Only one Communist has been named to a subcabinet post.

--The new cabinet has appointed a navy man close to Major Melo Antunes, leader of the anti-Communist faction, as chief administrative officer for Prime Minister Azevedo.

--The cabinet has announced that decrees issued in the waning days of the pro-Communist Goncalves government will be re-examined.

--Communist-backed steelworkers called a one-hour strike yesterday, but the response was reportedly less than overwhelming. The strike was probably intended as a warning to the new labor minister, Tomas Rosa, who has privately vowed to purge Communists from his ministry.

--A combined slate of Socialists and members of the radical leftist Reorganizing Movement of the Proletarian Party defeated the Communists in an election in the 85,000-member commercial workers union.

The victory in the union election gave the coalition a clean sweep of elections in the most important white-collar unions. The Socialists expect more difficulty in the blue-collar unions, where the Communists are entrenched.

The Socialists reportedly are planning a labor congress in October. They hope to use it to replace Communist-dominated leaders of the national trade union confederation. Should this effort fail, the Socialists will probably attempt to change the law setting up a single national confederation. The Communists are not likely to relinquish their strong position without a struggle.

Sa Carneiro, former leader of the Popular Democratic Party, called again yesterday for the military to return to the barracks; he implied that military officers were incompetent to govern. Sa Carneiro's remarks are certain to antagonize the military, and they may help the Communists.

Socialist leader Mario Soares has told the London *Times* that social democracy is not applicable to Portugal and that the purpose of the new government is not to correct unjust aspects of capitalism but to destroy it. Soares' comments accurately reflect the Socialist Party's platform, but he has soft-pedaled these views in recent months, probably in order not to antagonize potential supporters in the West.

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CSCE

The Soviets and the East Europeans are sharply criticizing NATO's autumn exercises, asserting that they violate the spirit of the Helsinki conference.

An article in *Red Star* on Sunday contends that the exercises are especially bad because their principal aim is to block the progress of detente by reviving fears of a Soviet threat. The East Europeans accused NATO of increasing the size and frequency of maneuvers.

Under the provisions of the Helsinki agreement, NATO and Warsaw Pact countries are to provide—on a voluntary basis—advance notification of certain maneuvers and to invite observers from the other signatories. The NATO countries have made such notification and have sent out invitations to the Warsaw Pact countries.

The Western press claims that the Warsaw Pact nations have themselves violated the Helsinki agreement, but NATO as yet has found no concrete evidence of attempts to circumvent the voluntary guidelines by carrying out a large exercise without providing notification of it.

The Soviets have reportedly advised the Warsaw Pact countries that they should neither acknowledge receipt of notification of maneuvers nor send observers to them, apparently hoping to avoid any implication that a precedent was being set. Moscow may believe that the presence of Warsaw Pact observers would weaken its argument that the NATO exercises are inconsistent with detente.

The independent-minded Romanians have already acknowledged the notification notes, however, and will probably send observers. Bucharest's reported decision is consistent with its strong stand at the European security talks on the need for prior notification.

NATO representatives are distressed by the Soviet and East European campaign. The allies have been providing detailed information regarding these maneuvers in order to build a record of meticulous compliance against which Soviet performance can be measured. Continued Soviet statements attacking the maneuvers as violations of the spirit of Helsinki may force the allies to reassess their strategy.

In Brussels, NATO representatives are working on a rebuttal which states that all maneuvers on which prior notification has been given were scheduled before the conclusion of the security conference, and that the number, size, and frequency of NATO maneuvers have not increased this year compared to previous years.

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Although most of the discussion within NATO has centered on the notification issue, NATO will insist on compliance by the Warsaw Pact in all provisions of the Helsinki agreement.

NATO will probably be a major forum for multilateral consultations on follow-up measures to the security conference.

Despite strong French objections, the EC last week established an ad hoc group to monitor Warsaw Pact compliance. The EC and NATO will work together to prepare the Western position for the follow-up meeting in Belgrade in 1977.

Austria, reflecting the concerns of the neutral states, has suggested using the 18-member Council of Europe based in Strasbourg to coordinate West European positions on some aspects of CSCE implementation. The council would act as a bridge between the EC Nine and other West European states.

The UN's Economic Commission for Europe is also trying to involve itself in the economic, scientific, and environmental aspects of the agreement.

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JAPAN

All leftist Japanese groups view Emperor Hirohito's upcoming US visit as an opportunity to embarrass the government and perhaps put strains on US-Japanese relations. The leftists see the trip as a final step in a series of moves designed to strengthen the US-Japan Mutual Security Treaty as well as a Japan-Korea-US military "alliance."

The Tokyo police expect a large number of rallies and demonstrations throughout Tokyo and near Haneda airport on the eve of the Emperor's departure. Some could lead to street battles with police. Police authorities also fear the radicals may try to occupy foreign embassies or kidnap Japanese or US citizens.

The government has ordered increased security at its diplomatic posts abroad because of the danger of attack by Japanese Red Army terrorists. Japanese authorities have also advised that US diplomatic and consular posts and other American establishments in East Asia could be targets for terrorist activities. One of the terrorists already has been apprehended by Canadian authorities while attempting to enter the US, raising the possibility that other members may have entered and that groups associated with the Red Army may be planning to disrupt the trip within the US.



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SOUTH VIETNAM

Saigon authorities have greatly increased their control over the economy and moved a step closer to reunification with the North by replacing the old South Vietnamese currency. New banknotes are being exchanged at a rate of 1 new piaster for 500 old piasters.

All business was suspended in the Saigon area on Monday morning while citizens arranged their financial affairs, filled out currency declarations, and completed their currency exchanges. Presumably the currency exchange was also being carried out in areas beyond the capital. It is doubtful whether the authorities have the administrative capability to handle quickly and fairly exchanges for 20 million people who collectively may hold more than 300 billion old piasters. Press reports indicate that counterfeit notes are already in circulation.

South Vietnamese were restricted in the amounts of currency they could exchange. Individuals and households could redeem only 15,000 and 100,000 old piasters respectively. Any excess is to be held in National Bank savings accounts, which can be drawn down by depositors only gradually as needs dictate.

Businesses were also subject to constraints. They were permitted for now to exchange only 100,000 to 500,000 old piasters, depending on the firm's size, but they could exchange up to an additional 500,000 if the National Bank considered it justifiable.

The currency reissue will accomplish several important objectives for the South Vietnamese authorities. It will give officials tight control over the distribution and amounts of new currency in circulation and thereby over prices, production, and investment. It will sharply moderate living standards of the wealthy and will redistribute their assets through forced saving.

The new currency will also lay the groundwork for financial integration with North Vietnam. The exchange value of the new money is reported to be 3 piasters to the dollar, which approximates that of the North Vietnamese currency, suggesting that both northern and southern currencies may be traded equally.

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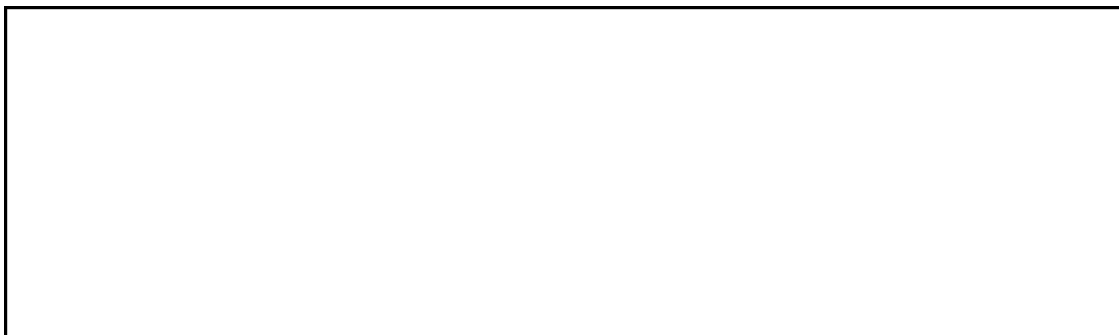
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SPAIN

Divisions are beginning to appear in the government as protests mount over the death sentences handed down to 11 terrorists.



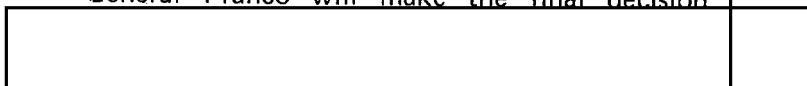
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There have already been antiregime demonstrations throughout Western Europe. The Pope and officials of several European governments have sent appeals to Franco for clemency. Concern that these bilateral approaches have been ineffective has led the EC Nine to agree to a joint appeal. This might prove decisive, in view of the Spanish government's wish for a link to NATO and ties to the EC.

In a reported straw vote last week, a majority of the ministers favored approving at least some of the death sentences. Opponents pointed not only to the expected strong foreign reaction but also to the likelihood of renewed violence in the Basque area if the terrorists are executed. These arguments were offset, to some extent, by concern over the reaction of police and rightists who have demanded that the sentences be carried out as an example to terrorists.

Efforts may be under way to come up with a compromise that might avoid cabinet resignations and soften the expected opposition to the government's decision. The convicted Basque terrorists have evoked the most sympathy, but only 3 of the 11 condemned terrorists are Basques; the others are members of a radical Marxist-Leninist terrorist group. A decision to approve the death penalty for a few of the Marxists but commute the sentences of the others—including the Basques and the two pregnant women sentenced to death—might satisfy both the right wing and liberal critics.

General Franco will make the final decision



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FRANCE

France is experiencing a round of renewed interest in regionalism, triggered in part by the recent actions of Corsican autonomists, who claim the central government lacks interest in the island's specific problems. A sense of frustration bred by France's continuing economic troubles and concern that regional interests will be ignored as the government moves to revitalize the economy have also contributed to the desire for increased local authority.

Opinion polls show that French citizens favor increased regional power by about two to one. The editor of the weekly *L'Express*, who is a strong advocate of regionalism, claims there is strong grassroots sentiment in favor of devising means—including violence—to compel the central government to give up some control over policy planning and implementation.

The controversy could prove personally embarrassing for President Giscard, who advocated decentralization during his campaign last year. Surveys show a mixed view of Giscard's performance: one poll says that half of those questioned believe he has done nothing, while another ranks him high on a list of officials considered committed to increased regional autonomy.

The Communists have called for a vote of confidence if the government refuses to deal with the issue. Their move is likely to fail, however, largely because advocates of regionalism cannot agree on what should be done. The Communists and Socialists want local financial autonomy, but the Communists are dead set against weakening other centralized controls. The Socialists, on the other hand, advocate regional assemblies with a decisive voice in determining urban policy. Giscard's followers are also split between supporters and opponents of regionalism.

The opinion polls show that the people favor giving local officials the power to negotiate with industries and unions on plant location, supervision of workers, hirings and layoffs, and labor organization.

The government probably will eventually have to relax some controls, if only to spread the responsibility for dealing with the nation's economic troubles, but centralization of power in Paris is certain to remain the basis of the French system. Nevertheless, mayors of large cities who are finding that their strained financial circumstances are inadequate to cope with increasing demands for local services will see to it that the issue remains in the headlines. They will be joined by advocates of autonomy in Corsica, Brittany, and the Basque areas.

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ANNEX

Fighting in Lebanon Threatens Government's Stability

Efforts to achieve a more durable cease-fire in Lebanon are continuing, but the situation has already deteriorated to the point where the viability of the country's traditional governing system is directly threatened.

Syria's active intercession to limit the conflict, the cooperative attitude of the less radical fedayeen organizations, and Lebanon's history suggest that some short-term compromise may still be possible. Lebanon will remain chronically unstable, however, as long as political power remains unbalanced between Christians and Muslims and the 1943 national covenant on which Lebanon's government is based stands unchanged.

Cooperation and Restraint

Maintaining a cease-fire probably will depend primarily on continued cooperation between the Lebanese security forces and the Palestine Liberation Organization and on restraint by the Christian Phalangist militia as well as the radical Palestinians and the Lebanese leftists.

Muslim Prime Minister Karami, fearful of a sharp fedayeen and leftist reaction, will probably continue to oppose the use of the army. Preserving any cease-fire, however, will be complicated by several factors:

--The control exercised by the major religious and political leaders over their armed followers is by no means complete.

--Lebanese leftists and fedayeen radicals, especially Kamal Jumblatt's followers and the Popular Front for the Liberation of Palestine, believe that strife will eventually overturn the present system of government and pave the way for a Muslim, leftist-dominated regime.

If the government restores a modicum of public order, Karami probably will stay on as prime minister as long as he has Syrian backing. Karami has lost stature, however, and his opposition to Christian Interior Minister Shamun's call to use the army to end the fighting in Beirut has strained their relations and may inhibit future cooperation.

President Franjiyah, a Christian, is a shrewd politician who can be expected to attempt to exploit any disunity in the six-man "salvation" cabinet to diminish

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Karami's influence. Franjiyah, however, has played almost no role in the current troubles, and there have already been calls for his resignation before his term expires in 1976.

The Political Initiative

Despite his losses, Karami still appears to have the political initiative. He has the support of the principal Muslim leaders as well as PLO head Yasir Arafat. The latter has emerged as an even greater power in Lebanese politics.

If the fighting eases, Karami will have to turn to a possible expansion of the cabinet and to the social and political demands of the Muslim leftists. It is highly unlikely that basic progress could be made on these intractable issues very soon.

Any attempt to expand the cabinet will have to contend with the competing demands of Phalangist leader Pierre Jumayyil and Lebanese socialist leader Kamal Jumblatt. An effort to form a cabinet that excluded either could touch off a new round of violence.

If the fighting continues, either Christian or—more likely—Muslim political groups may withdraw their support for the power-sharing principle underlying the national covenant and seek complete power for themselves.

The country's large Sunni Muslim community has in the past felt that its best interests were served by supporting the national covenant, but it may have to decide soon whether to stick with the known but limited advantages of the present system or to overturn the system in the uncertain hope of winning unlimited advantages.

It is clear that the Muslims are going to press for reforms which would gain them a greater measure of parity with the Christians, but there is no convincing evidence as yet that they are prepared to risk open civil war to challenge the present system.

The Principal Arbiter

Syria has emerged in this round of fighting as the principal arbiter of Lebanese domestic politics, but so far Damascus has played its political role cautiously. Instead of taking sides, the Syrians have gingerly sought to coax the various Muslim and Christian forces to accept a political solution to restore calm.

Damascus seems more concerned at the present with its own problems, particularly the outlook for negotiations over the Golan Heights. The Syrians,

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moreover, do not want to provide the Israelis with an excuse to occupy southern Lebanon and thus embroil Syria in major hostilities with Israel. And President Asad probably does not want to add to his political burdens at this time by trying to occupy Lebanese territory.

It has generally been assumed Syria would intervene militarily if the Lebanese army were to engage the fedayeen and threaten to drive them from Lebanon. Given the demoralized state of the Lebanese army and the capability of the heavily armed fedayeen to sustain urban warfare for some time, even against both the army and the Christian militias, it seems highly unlikely that the situation will reach this point.

If Syria were to intervene at all, it would most likely take the form of allowing or encouraging larger numbers of fedayeen forces and arms to cross from Syria into Lebanon. Syria could also mass some forces on the Lebanese border in order to intimidate the Lebanese army and to force a compromise on the warring parties.

A Major Threat

The rise to power in Lebanon of a radical government sympathetic to Syria would be seen in Tel Aviv as a major threat. If that government allowed its territory to be used for a significant increase in terrorist operations, it would invite a heavy Israeli military response and open support of Lebanese Christian dissidents.

The Israelis could ultimately respond to Syrian intervention in Lebanon or an actively hostile government in Beirut by occupying a portion of southern Lebanon. Hardliners in Israel have for years pointed out that Israel, by seizing territory up to the Litani River, would gain a more defensible border and a greater supply of water.

In all likelihood, however, Israel would not seize part of Lebanon unless it were prepared for other reasons to renew hostilities with Syria.

The Israelis right now seem interested in ensuring that a military imbalance threatening the Christians does not develop. They probably are channeling some military supplies to the Phalangists, although it is not known what and how much the Israelis have managed to deliver, how it is delivered, or how long this has been going on.

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Backing the Radicals

Libya has been actively backing radicals in Lebanon since early 1974. The Libyans were reportedly behind student disturbances in Beirut in April 1974, and in the same period Libyan agents were attempting to recruit Lebanese youth for an Islamic organization designed specifically to stir up trouble between Lebanese Muslims and Christians.

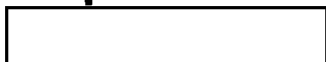
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There is little doubt that the Libyans are involved in the current fighting to some extent—and that their Islamic zeal will lead them to further involvement as long as there is heavy Christian influence in Lebanon.

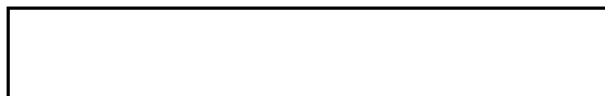
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